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13 MAY 1983

SOCIAL SECURITY COVERAGE FOR CIA
EMPLOYEES ENTERING ON DUTY ON OR AFTER 1 JANUARY 1984

This paper is directed at the impact of Social Security coverage of new Agency employees as of 1 January 1984, with particular focus on the adverse effect of this coverage on the ability of CIA management to recruit and maintain the quality of work force essential to the effective performance of the Agency's mission.

The impacts that are cited are limited to those relative to Social Security coverage; they do not include the more imminent problems that would be experienced should proposals for changing the provisions of Civil Service and other civilian federal retirement systems be enacted.

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SOCIAL SECURITY COVERAGE FOR CIA
EMPLOYEES ENTERING ON DUTY ON OR AFTER 1 JANUARY 1984

REFERENCE: Social Security Amendments of 1983

I. Background

The recently enacted Social Security Amendments of 1983 include the provision that all new federal employees hired as of 1 January 1984 will be covered under Social Security. This Social Security legislation also provides covered new hires as of 1 January 1984 with eligibility to participate in current civilian federal retirement systems. Such participation would be authorized until new legislation is enacted instituting a supplemental retirement system for these new employees. This "bridging" authority may prove to be of relatively short duration, because the supplemental retirement plan legislation is expected to be introduced in the immediate future and could be in place prior to 1 January 1984. The details of this supplemental plan have not been made available, nor has the Administration introduced any legislation on the array of other retirement related changes proposed in the President's FY 1984 Budget.

In recent testimony before the Senate Finance Committee, the Director of the Office of Personnel Management stated that the employee cost for the supplemental plan would be 5.6% of salary. Since the intent of the new retirement plan is to supplement Social Security benefits at retirement, it will provide considerably reduced annuities as compared to current retirement systems and full benefit pay-offs will begin at the same age (now 65) as Social Security.

It must further be expected that, like Social Security, there will be some form of early retirement option available to employees, but that severe reduction penalties of the annuity will be applied.

II. General Effects Produced by Social Security Coverage of New Federal Employees

The primary effects of the new Social Security legislation and the effort to establish some form of reduced benefit supplemental retirement plan will be to:

A. Essentially eliminate early retirement by employees who decide to spend a working career in federal service; retirement will normally be at 65 years of age or later, with 35 to 40 years of service for full annuities.

B. Establish the portability of Social Security coverage from federal employment to private sector careers. The experience and training gained at government expense will greatly stimulate movement of mid-level and younger employees from federal service to nongovernment competitors offering higher salaries and more attractive retirement plans.

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C. Sharply increase the salary deductions of new recruits for retirement related coverage from the current 7% (9% in 1984 and 11% in 1985 if the President's FY 1984 Budget proposals are enacted) to 11.3% for Social Security/supplemental plan or 12.7% for Social Security and interim regular Civil Service coverage in the event the supplemental plan is not enacted. This would rise to 14.7% in 1984 and 16.7% in 1985 if current proposals prevail.

Social Security coverage of Agency employees and the effects cited above are viewed with considerable concern by CIA management as serious impediments to the support of the President's efforts to revitalize and enhance the Agency's intelligence capability and product.

III. Early Retirement as a Management Tool in the CIA

The CIA has a long established policy which encourages employees to retire at ages substantially earlier than elsewhere in government. The average retirement age in CIA in 1982 was 56.9 under Civil Service and 52.8 under the Central Intelligence Agency Retirement and Disability System (CIARDS).

This policy has been based on recognition that the Agency's vital missions require that the corps of careerists perform their operational, analytical or support duties with sustained high motivation and undiminished effectiveness from their initial entry assignment throughout a preferably brief career of 20 to 30 years. The early retirement provisions of the Civil Service Retirement and CIARDS systems have served the Agency exceedingly well to attract new recruits, provide timely career progression, and encourage retirement of personnel when Agency management prefers that they retire. Extension of the retirement age for full annuities would seriously impair the ability of Agency management to maintain the employee flow-through which is essential to maintaining maximum effectiveness in meeting requirements.

The predictability of early retirement has provided Agency management with the ability to offer our personnel essential developmental assignments and promotion within reasonable time frames to reward excellence of performance. The institution of retirement changes whereby full benefits would not accrue until age 65 would impose prohibitive penalties for early retirement and result in extreme blockages both as regards developmental assignments, promotion headroom, and the resultant extension of service of large numbers of employees well beyond their currency in the state-of-the-art in substantive areas and their capacity to handle the milieu of clandestine operations.

The specific impacts of Social Security coverage of new employees on the CIA as regards recruitment, the extension of retirement age for full annuities and other complications are outlined in the subsequent section.

IV. Impacts of Social Security Coverage of New Employees on the CIA

A. Recruitment of New Employees

1. The Agency recruits approximately new technical and professional employees each calendar year. In spite of numerically high numbers of job seekers in the labor market because of economic conditions, the specific types and caliber of people sought by the Agency are extremely difficult to recruit. Particular problems are encountered in a wide spectrum of high competition areas for critically needed subject and area analysts, computer specialists, advanced scientific and high technology personnel, communications specialists and operations officer trainees.

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The majority of the Agency's recruits for experienced professional area experts, economic, political and military intelligence analysts, and scientific and technical analysts are drawn from the ranks of private enterprise and/or academic and research facilities. The inducement to join CIA is made up of a combination of interests in serving the Nation in a vital capacity, the opportunity for a career where their experiences and knowledge will be fully utilized, reasonable compensation, and retirement at a relatively young age permitting a return to academia or other pursuits.

2. The Career Trainee Program, which provides the entry group for young operations officers, must necessarily be highly selective from among the best qualified and most sought after young people from the graduate schools of the Nation. Even with continuous special and concentrated recruitment efforts to attract qualified career officer trainees it is extremely difficult to recruit the types and numbers of these young people that we need to meet our requirements. This difficulty is occurring in spite of the attractiveness of the current Agency career development programs, which offer opportunity for desirable rotational assignments, timely promotion, and the prospects of future retirement with a full annuity under CIARDS at a relatively young age (50) after a minimum of 20 years of service.

3. The Agency's ability to meet its "new hire" requirements will be critically weakened by any dilution of the combined career and benefit "package" currently available. The cost of Social Security coverage and the supplemental retirement system to new employees would total 11.3% of salary, and this could be exacerbated by a possible 12.7% cost for Social Security and interim coverage under current Civil Service. There is no doubt that a sizable increment of qualified and interested young officer candidates would decline employment simply because of these cost factors. An additional number of candidates would lose interest as the prospect of affordable future retirement was extended to age 65.

4. While the option for early retirement can be anticipated within the proposed supplemental retirement plan, we must expect prohibitive annuity reductions for such an election. Early retirees would be faced with a fragmentation of the annuity benefits with a deferral of the full Social Security portion until age 65 (66 in the year 2009 and 67 by the year 2027). An estimated comparison of employee costs, options, and retirement benefits under current Civil Service retirement provisions with those under Social Security and the probable provisions of a supplemental plan are presented in the attachment.

5. The recruitment of both analytical and operational personnel is conducted in a most competitive market. The combined attractiveness of the Agency's current opportunity and benefits package has greatly assisted in offsetting the high cost of living in the Washington area and the relatively low starting salaries (1982 average annual salary was approximately \$23,500) per year for approximately new professionals and technical recruits.

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B. The Extension of Retirement Age for Full Annuities and Other Impacts

Mandatory Social Security coverage and the lengthening of service of new Agency employees by up to ten years would create the following problems as regards maintenance of the quality of personnel so essential to meeting our requirements:

1. Create severe future blockages in all career paths and seriously impair the ability of Agency management to move promising individuals up through needed rotational and developmental assignments.
2. Essentially dry up promotion headroom in future years as employees defer their retirement to age 65 with 35 to 40 years of service.
3. The CIA Retirement and Disability System was established by law in 1964 in recognition of the special circumstances of service with the Clandestine side of the Agency abroad. This special retirement system offers nonreduced annuities for members (approximately 20 percent of the work force) at age 50 with 20 years of service. The circumstances of frequently dangerous and adverse working and living conditions can lead to early burnout or compromise of personnel carrying out the overseas activities of the Agency. The absence of early retirement incentives for these employees would be severely incompatible with effective staffing of our overseas stations.
4. Personnel who join CIA on or after 1 January 1984 will, under current CIARDS provisions, remain eligible for participation in this system when qualifying conditions are satisfied. The substantial Social Security contributions by both the individual and the Agency will not, however, be recoverable for transfer to the CIARDS fund as are Civil Service Retirement funds under current law.
5. The portability of Social Security coverage, combined with experience and training gained at government expense will stimulate midlevel employee movement to private sector employment.
6. Increased turnover from the ranks of intelligence personnel will make it increasingly difficult to safeguard national security information.
7. Inclusion of CIA personnel whether overt, covert or potentially covert in the Social Security data base poses severe security risks in terms of protecting the identities of individuals under cover and the access by unauthorized persons to complete listings of all CIA personnel.

V. Conclusions and Recommendation

There is no question that Social Security coverage and its provisions for full retirement benefits at age 65 (or later) and reduced benefits at age 62 will present strong disincentives for employees to consider or afford retirement at earlier ages. The proposed supplemental retirement plan provisions for full annuity entitlement must be anticipated as coinciding with Social Security ages for benefits.

The effect of these factors in themselves will deny Agency management a most important tool in recruiting and maintaining the type of work force essential to meeting its requirements.

It is recommended that employees entering on duty with the CIA on or after 1 January 1984 be covered exclusively by a retirement program essentially similar to that currently provided for Agency employees by the Civil Service Retirement and Disability System and by CIARDS. This would necessitate amending CIARDS to encompass all Agency employees, with different provisions and benefits for varying types of service.

Attachment

COMPARISON OF RETIREMENT OPTIONS AND BENEFITS

Federal Employee Under Current Civil Service
with
Federal Employee Under Social Security
Coverage and Supplemental Retirement Plan

1. BACKGROUND

a. Based upon the assumption that Social Security coverage will be extended to all new federal employees hired as of 1 January 1984, an employee who enters on duty at age 22 in 1984 will be eligible for a reduced Social Security annuity benefit in 40 years (age 62) in the year 2024 and a nonreduced annuity at age 67 in 2029. It is further assumed that by 1 January 1984 all new hires will also participate in a Supplemental Federal Employee retirement plan. This supplemental retirement plan will cost employees 5.6% of salary (per Director of OPM in recent testimony before the Senate Finance Committee). The Social Security system changes coupled with the Administration's plans to introduce legislation to change major provisions of Federal Civilian retirement system, will have a major adverse impact on the Agency's personnel manpower management system.

b. The recruitment of new personnel into the CIA has been greatly facilitated by the promise and predictability of the ultimate retirement benefits and provisions for early retirement without reductions of earned annuities for employees at age 55 with 30 years of service (Civil Service) and for CIARDS at age 50 with 20 years of service.

The Central Intelligence Agency's managerial concerns most certainly include the retention of strong inducements for new professionals to join the Agency in the first place. More importantly to maintain a vigorous, effective and highly motivated work force to meet the stressful demands of intelligence requirements, a retirement system must be retained that will encourage career progression and "flow through" to retirement at fairly early ages after 20 to 30 years of service.

The Administration's proposed retirement system reforms, particularly as regards the extension of nonreduced annuity retirement from 55 to 65 with severe penalties for early retirement will, if enacted, present a different and fragmented dual-source benefit program for new employees.

Early retirement at 55 would still be permitted subject, we must assume, to severe reductions in the earned supplemental annuity with a delay of seven years (i.e. age 62) for a reduced Social Security benefit and ten to twelve years before full Social Security benefits would accrue.

2. COMPARISON OF BENEFITS

A comparison of employee retirement options and benefits under current retirement rules vis-a-vis the proposed Social Security/Supplemental Retirement Plan is needed to determine whether the current retirement provisions proven so useful in the recruitment and future management of new personnel today will be negated should the proposed changes be enacted.

It is not possible to construct an applicable model for the actual options or benefits which may be in being forty years from now, but a useful theoretical comparison can be developed on the basis of the current legal provisions of both Civil Service Retirement and Social Security with some application of the proposed changes that have been announced at this point in time.

COMPARISONS OF RETIREMENT OPTIONS AND BENEFITS

BASED UPON:

- A. Current provisions of Civil Service Retirement.
- B. Current Social Security provisions to cover new federal employees; current Social Security contribution rates for 1984 and; current pay-off maximums of Social Security Benefits.
- C. Assumptions that the proposed Supplemental Retirement Plan will include same basic provisions as cited in Presidential FY-1984 Budget proposals regarding extending retirement age, imposition of early retirement penalties, and using high-5 year average salary as annuity base.

COMPARISONS OF RETIREMENT OPTIONS AND BENEFITS
Approved For Release 2009/09/08 : CIA-RDP87-00868R000100110017-6

Federal Employee Under Current Civil Service
Compared With
Federal Employee Under Proposed Social Security
Coverage and Supplemental Retirement Plan

CASE EXAMPLE: 55 Year Old with 30 Years of Service--Retired as GS-12, Step 5

CURRENT CIVIL SERVICE (CSR)

Employee Cost - 7% of Salary
High-3 Average - \$30,331
Basic Annuity - \$17,061 per year (b)
\$ 1,421 per month
Penalty for Early Retirement - 0%
Monthly Annuity at Age 55 - \$1,421 per month

COMBINED SOCIAL SECURITY AND SUPPLEMENTAL RETIREMENT PLAN (SRP)

Employee Cost - 11.3% (5.7% Social Security and 5.6% SRP) of Salary

PART I - Supplemental Retirement Plan

High-5 Average - \$28,088 (a)
Basic Annuity - \$12,640 (c)
Less 50% Penalty for Early Retirement - \$6,320 (d)
\$ 527 per month

PART II - Social Security

Annual Salary Last Year of Work - \$33,290 (e)
Eligibility for Reduced Benefits at Age 62 - \$6,108 per year (e)
\$ 509 per month
Eligibility for Full Benefits at Age 67 - \$8,748 per year (e)
\$ 729 per month
Monthly Supplemental Retirement Plan at Age 55 - \$527 per month
Total Combined Annuity/Social Security at Age 67 - \$1,256 per month

- NOTES: (a) A high-5 average salary base for annuity computation rather than high-3 can be assumed based upon the retirement proposals announced by the Administration.
(b) Currently based on 7% employee contributions.
(c) Supplemental Retirement Plan is proposed at 5.6% employee contribution. This can be assumed to produce a reduced basic annuity in proportion to the difference between what the current 7% employee contribution may earn compared to a 5.6% contribution.
(d) Early retirement penalty of 50% of annuity.
(e) Current (1983) maximum annual earnings allowed for Social Security benefit computation is \$35,700. Maximum annuity at age 62 is \$509 per month and maximum at age 65 is \$729 per month. Full benefit age will be extended to age 66 in the year 2009 and to age 67 in 2027. Age 62 for reduced benefits (70% of full benefits) will continue to be retained.